

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



**CORRECTED
FISCAL MEMORANDUM**

HB 69 – SB 141

February 27, 2013

SUMMARY OF ORIGINAL BILL: Reduces the amount of capital required, from \$500,000 to \$250,000, to be eligible to receive a protected cell captive insurance company (PCCIC) license from the Department of Commerce and Insurance. Authorizes a sponsor, person, or entity which contributes capital or surplus toward the formation of a PCCIC, to operate such PCCIC. Requires a PCCIC with 10 or more cells to pay an annual minimum aggregate tax amount of \$10,000, and sets an annual maximum aggregate tax amount at the lesser of either \$100,000 plus \$5,000 for the number of cells exceeding 10 or \$200,000. Redefines various terms within the *Revised Tennessee Captive Insurance Act*.

FISCAL IMPACT OF ORIGINAL BILL:

Increase State Revenue - \$136,900/FY13-14
\$318,400/FY14-15
Exceeds \$318,400/FY15-16 and Subsequent Years

Increase State Expenditures - \$3,200/One-Time
\$116,300/Recurring

SUMMARY OF AMENDMENT (002895): States that any entity participating in a protected cell captive insurance company (PCCIC) can insure only its own risks through such respective PCCIC, if approved by the Commissioner of Commerce and Insurance. Corrects a typographical error in the original bill by replacing “and” with “or.”

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

On February 13, 2013, a fiscal memorandum was issued that had an error in the *FISCAL IMPACT OF ORIGINAL BILL* that stated an increase in state expenditures of \$3,200/One-Time. The recurring increase on \$116,300 was omitted. This error has been corrected. The fiscal impact of the bill as amended and the associated assumptions remain unchanged.

Unchanged from the original fiscal note.

HB 69 – SB 141 (CORRECTED)

Assumptions for the bill as amended:

- According to the Department, reducing the amount of capital required to form a PCCIC and allowing a sponsor to operate a PCCIC will result in an increase of three PCCIC license issuances per year in FY13-14 and FY14-15.
- There is a one-time licensing fee of \$1,115. This will result in a one-time increase in state revenue of \$3,345 ($\$1,115 \times 3$) in FY13-14 and FY14-15.
- There is an annual statement filing fee of \$515. This will result in a recurring increase in state revenue of \$1,545 ($\515×3) in FY13-14 and \$3,090 ($\515×6) in FY14-15.
- On average, a licensed PCCIC pays 0.4 percent tax on the amount of written premiums by each respective company.
- In FY13-14, it is estimated that three companies with written premiums in the amounts of \$5 million, \$8 million, and \$20 million will become licensed. This will result in a recurring increase in state revenue of \$132,000 [$(\$5,000,000 + \$8,000,000 + \$20,000,000) \times 0.4\%$].
- In FY14-15, it is estimated that three additional companies with written premiums in the amounts of \$5 million, \$10 million, and \$30 million will become licensed. This will result in a recurring increase in state revenue of \$180,000 [$(\$5,000,000 + \$10,000,000 + \$30,000,000) \times 0.4\%$].
- The total increase in state revenue in FY13-14 is estimated to be \$136,890 (\$3,345 licensure fees + \$1,545 filing fees + \$132,000 tax revenue).
- The total increase in state revenue in FY14-15 is estimated to be \$318,435 (\$3,345 licensure fees + \$3,090 filing fees + \$132,000 recurring tax revenue + \$180,000 new recurring tax revenue).
- It is assumed that additional PCCICs will become licensed each year. Since the exact number is unknown, it is assumed that state revenue increases in FY15-16 and subsequent years will exceed \$318,435.
- In FY13-14, the Department of Commerce and Insurance will hire one new certified financial examiner to meet the additional regulatory needs required by this legislation. This position will result in a recurring increase in state expenditures of \$96,528 (Salary: \$78,700 + Benefits: \$11,829 + Insurance: \$5,999.28).
- In FY13-14, there will be additional recurring increases in state expenditures related to this position in the amount of \$19,800 (Administrative cost allocation: \$15,000 + Computer costs: \$1,000 + Lease: \$2,200 + Miscellaneous: \$1,600).
- In FY13-14, there will be a one-time increase in state expenditures related to this position in the amount of \$3,200 (Computer and related equipment: \$1,200 + Office landscaping: \$2,000).

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "Lucian D. Geise". The signature is fluid and cursive, with the first name "Lucian" written in a larger, more prominent script than the last name "Geise".

Lucian D. Geise, Executive Director

/jdb